Tajikistan	4	4	3	2	3	3	2	3
Comparators								
Hungary	199	183	210	337	402	394	126	240
Poland	98	68	126	181	413	534	184	189

Source: WDI and IMF Country Reports and the Kazakhstan Public Expenditure Review. Note that the accuracy of social indicators in some of the Central Asian countries is not certain.

* includes both social security and welfare payments

TABLE 7

CORRUPTION AND GOVERNANCE INDICES

	Share of Annual Revenues Paid in Bribes	Share of Firms Describing Courts as "Honest and Uncorrupt"	Average Political and Civil Liberties Rating (scale of 1 to 7)
Kazakhstan	3.1	16.4	5.5
Uzbekistan	4.4	32.6	6.5
Turkmenistan	n.a.	n.a.	7.0
Kyrgyz Rep.	5.3	18.1	5.5
Tajikistan	n.a.	n.a.	6.0
Comparators			
Russia	2.8	15.1	5.0
Hungary	1.7	67.5	1.5

Source: BEEPS data base, 1999 and Freedom House Data Base for 2000-01

CAR REGION – WORLD BANK 10 YEAR ASSESSTMENT

Central Asia: Ten Years of Transition

Source: BEEPS data base, 1999 and Freedom House data base for 2000-01

29 December 2005

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CAR REGION-WORLD BANK 10 YEAR ASSESSMENT

Central Asia : Ten Years of Transition

Introduction

Good morning, Ladies and Gentlemen.

Many thanks to the German authorities and the UNDP for having organized this donors' brainstorming session on Central Asia.

The timing for this meeting is good, as the dust has settled a bit on the events in and around Afghanistan and heightened attention is focused on Central Asia. We in the World Bank welcome this increased attention, since we have long felt that the international community had focused too little on the low-income CIS countries, including and especially in Central Asia.

This meeting is well-timed also because it follows the recent conference in London on the seven low-income countries of the CIS, which stressed the importance of follow-up in sub-regional fora such this one in Berlin.

I've been asked to provide an overview of the ten years of transition in Central Asia from the perspective of the World Bank. We have now been involved in supporting the transition there for about ten years, and I personally for six years.

I will cover five aspects:

1. An overview of the recent transition and current situation in Central Asia
2. Challenges for the future for the countries in Central Asia
3. Key opportunities and constraints
4. What can the international community do?
5. Implications for any new regional initiative

1.Overview of Recent Transition and Current Situation
[Table references are to the attached set of tables with indicative economic, social and institutional data for Central Asia.]

The Central Asian republics were among the poorest and least developed in the Soviet Union (SU) and least well known in the West before the break-up of the SU.

The new countries of Central Asia were hit by a **triple-transition**: the adjustment to the economic shock of the break-up of the former SU, the transition from state planning to market-driven economies, and an ongoing political transition.

A. Break-up of the Soviet Union
The break-up of the SU hit the Central Asian republics especially hard, a fact which has long been underestimated:

Trade and transit was interrupted with new borders, increased transportation costs, illegal check points (e.g., a truck traveling from Kyrgyz Republic to Russia is estimated to have to pay up to $1,000 in bribes along the way), and the collapse of traditional markets, esp. in Russia. This seriously hurt industrial and agricultural production in Central Asia due to disruption in access to inputs and markets.

- **Loss of subsidies** for budgets, enterprises and households - directly and indirectly paid through transfers for pensions and other social payments, as well as through favorable (below market) prices on transport and energy.
- **Loss of access to secure water and energy resources** within the region, which was key for agriculture, industry, as well as households (including heating in winter).
- **Loss of administrative structures and skilled labor** as the traditional Soviet administration collapsed, new national institutions had to be built up and many Russians left.
- **Environmental legacy** – countries were left with large environmental burdens (including the Aral Sea ecological disaster, as well as industrial, nuclear and biological waste).
- **Civil war**(esp. in Tajikistan).

As a result of these disruptions, the Central Asian republics sustained huge economic losses, resulting in

economic declines by 20-60% of their GDPs in 1995/96 relative to the levels in GDP in 1990, losses that far exceed those experienced during the Great Depression of the 1930s.

B. Market Reform and Institution Building

Replacing state management with market-driven economic systems was – and remains – a major challenge for the new republics which (in contrast to Central European countries) had no recent market experience.

- The Central Asian countries (like other CIS countries) initially faced major **macroeconomic instability**, but were able to bring high inflation under control relatively quickly (see Table 2)
- **Market-oriented policy reforms** showed mixed progress (Table 3), with Kazakhstan and Kyrgyz Republic advancing most, Turkmenistan and Uzbekistan least.

  Market institution and capacity building advanced slowly in all Central Asian republic Some progress was made in such areas as setting up Central Banks and payments systems, as well as basic national administrative structures and legal systems. But fundamental weaknesses remain as regards the civil service, budget management, regulatory and judicial systems, and control of corruption (Table 7).

C. Political Reform

- Progress with the creation of **democratic institutions, civil society and social capital** was slow (Table 7), and in some countries there have arguably been reversals, although the growing strength of civil society (including the growth of a vibrant NGO sector) has been notable in some countries, especially in Kyrgyz Republic.
- **Regional political cooperation** is minimal, despite some regional cooperative declarations and institutions. Significant economic, political and personal rivalries have grown among the five countries and their leadership.
- Central Asian countries are said to be vulnerable to **extremist influences and movements**.

D. The Current Economic and Social Situation

In terms of economic performance, there has been **some recovery** since 1995/6, but this was dramatically interrupted by the Russian crisis of 1998; since 2000, there has been reasonably good growth (propelled in part by Russia's recovery), giving some hope that the worst is over (Table 1).

But some countries, esp. Kyrgyz Republic and Tajikistan are still suffering from the lasting impact of the earlier economic shock, with **highdebt** burdens and low **per capita incomes** that place them **among the poorest of the developing countries**. (Table 1)

All countries suffer from **serious poverty problems** (most severe in Tajikistan, where 70-80% of the people live in poverty) and face increased **inequality**. (Table 4)

Social sector indicatorsremain relatively strong according to official data (Table 5), but there are indications that these data substantially underestimate the decline in some key social conditions.

Social sector spendingby governments is very low by international standards and in comparison with countries in Central Europe and even Russia. (Tajikistan is a dramatic outlier even by Central Asian standards). (Table 6)

The disintegration of "economic space"in the region due to lack of cooperation is dramatic:

For **water** the state of maintenance of dams and irrigation systems is very poor, with large waste of scarce water resources and risks of catastrophic failures; there is lack of cooperation and political tension about intra-regional water allocations; countries are planning large, wasteful investments in water storage and transmission, based on sub-optimal design at the country, rather than regional, level; the results are man-made droughts and major economic, social and environmental problems.

Trade and transitfor goods and people is increasingly a problem in the region, with Uzbekistan's currency and trade policies creating a special problem, by requiring tariff and quantitative controls that are disruptive for trade and transit for the entire region. (Uzbekistan plans to reform these policies, which could represent a major opportunity for improved trade and transit in the region.)

Communicable diseases (HIV/Aids and TB) and drug trade and usehave also become increasingly a regional issue.

The poorest sub-regions within countries (the Ferghana Valley and the Aral Sea region) are hardest hit, with the poorest segments of the population bearing the greatest brunt of regional disintegration.

2. Challenges for the Future

The countries of Central Asia face a common set of challenges, and yet their intensity and impact differs significantly from country to country.

Table 8 lists **twelve challenges**, five of which apply at the **country level** (further market reform, institution building needs, a poor investment climate, social service needs, and high external debt), five apply at the **regional level** (trade and transit access, regional water and energy issues, oil/gas pipeline access, communicable diseases and drugs, and environmental issues). In addition, some countries face special needs for concessional finance and all require further political reforms.

The degree to which circles in the matrix of Table 8 are solid black is indicative of the severity of the challenge. The assessment is qualitative and subject to discussion.

Looking at the key challenges country-by-country, the following broad-brush picture emerges:

- **Kazakhstan**is probably in best shape and currently has the brightest economic future among the Central Asian countries, comparable to Russia and Ukraine. The major risk for the longer term may lie in the inappropriate use of its energy resources, which has plagued many other resource-rich developing countries.
- **Uzbekistan**faces serious challenges in most dimensions. As a key player in the region, progress in economic reforms, an improvement in its economic performance and increased readiness to deal with regional issues in a cooperative manner would have major benefits not only for Uzbekistan itself, but for the region as a whole. On the other hand, should it stagnate or, worse, go into an economic and political tailspin, this would have disastrous implications for its neighbors, esp. the poorest, Kyrgyz Republic and Tajikistan.
- **Turkmenistan** is an outlier even within the region in its near-total isolation and lack of reforms. There is no indication that its position will change in the foreseeable future and it represents a significant obstacle to any effort to increase regional cooperation in key areas (esp. water).
- **Kyrgyz Republic**has many positive features as far as its progress with economic reforms is concerned and in building a vibrant civil society. However, lack of market access, grave institutional weaknesses, pervasive poverty, and an unsustainable level of debt provide tremendous challenges and risks.

  Tajikistan is similar to Kyrgyz Republic in the nature of many of the challenges it faces, except that they tend to be even more pronounced, in particular institutional weaknesses and risks of internal conflict.

3. Key Opportunities and Constraints

A number of opportunities and constraints confront the international community as it considers increasing its support for reform and development in Central Asia.

Opportunities:

- the recent economic recovery
- the region's natural resources
- the countries' human capital
- the possibly enhanced willingness of the countries' leaderships to push forward with reforms and regional cooperation
- the increased international attention to Central Asia

Constraints:

- weak democratic institutions and social capital

- weak institutional capacity and investment climate
- lack of market access
- limited commitment to reform, capacity building and regional cooperation
- lack of resources for public investment and social spending (for some)
- debt overhang (for some)

With this as background, what can the international community do?

4. What Can the International Community Do?
Based on the World Bank's experience, a few key priorities emerge for the International Community as it reinforces its commitment to support economic recovery, poverty reduction and regional cooperation in Central Asia. The priorities can be divided into country-specific and regional dimensions.

Country-specific Priorities:

Democracy building and political reforms: bilateral donors, some multilateral institutions (OSCE, UN) and international NGOs should be in the lead with support in this area, but all donors can support the development of participatory approaches and stronger civil society in their specific spheres of involvement.

Capacity building: Technical assistance (TA), training and programs/ projects in support of reform of public administration, of the judiciary, of market institutions (e.g., banking sector) and for the development of civil society can be supported by a broad range of external supporters. It is an area where the World Bank is especially active.

Improving the investment climate: TA, training, and programs/projects for improvements in the regulatory framework, registration, inspection and licensing, property and bankruptcy legislation, etc. are essential to support private investment, esp. by small and medium firms. The IFIs have a special role to play here.

Investment in physical and social infrastructure: direct financing and budget support for programs and projects in these areas are essential, but need to be combined with sectoral reforms and institution building, for sustainability and effective targeting. Many donors can contribute in this area, but need to cooperate to assure appropriate sectoral approaches.

Concessional finance and debt relief:IFIs have so far been the principal source of international financial support and increased support from this source will likely be limited. For the poorest countries (Kyrgyz Republic and Tajikistan) increased bilateral concessional finance will be essential (linked to good performance). Debt relief for these countries should be promoted using existing instruments as appropriate (Paris Club, enhanced HIPC).

Using the PRSP process: The PRSP process for the poorer countries (IDA borrowers) is the appropriate framework within which the countries and the international community can cooperate to formulate appropriate country-specific strategies and external support. The World Bank will continue to support the PRSP process in partnership with others, and will strengthen its own capacity in the region, by placing its Country Director and senior technical personnel permanently in Central Asia (Almaty).

Regional Priorities:

Water management: The Aral Sea Basin Program, while not without its difficulties, provides an important analytical base, institutional lessons and a programmatic foundation for further initiatives by the international community in helping to develop regional approaches to water policy and management. All donors should use opportunities of high-level dialogue to press the leadership of the five Central Asian countries to work together closely in this essential area, even as for the immediate future much of the pragmatic support will likely have to focus on bi- and tri-lateral cooperation among selected Central Asian countries, and on country-specific reform and investments for improved water management and use. Attention will now need to be paid to the role of Afghanistan as a potentially significant player in the regional water situation.

Energy: Donors can advise on energy transit and trade options and finance high priority investments, preferably with private sector participation. Energy sector reforms, including improved payments discipline, will have to be a key aspect of such support. Attention needs to be paid to the potential for electricity supply from Central Asia to Afghanistan and the potential of routing international oil/gas pipelines through Afghanistan, once the country returns to normal.

Trade and Transit: Donors can help by supporting Uzbekistan's incipient currency and trade policy

reforms, since this could help unlock one of the major constraints to regional trade and transit. In addition, support for investment and institution building in trade and transit facilitation and infrastructure are of high priority. The Asian Development Bank and the European Commission have been lead institutions in this area so far. Others could add their support based on relevant experience elsewhere (e.g., the World Bank).

- **Communicable diseases:** Various donors (e.g., WHO, UN agencies, the World Bank) should press for recognition of and fight against the double threats of HIV/Aids and TB.

  Drugs: Relevant UN and bilateral agencies should promote the fight against the spread of drug transit and use in the Central Asia Region.

5. Conclusion: Implications for Any New Regional Donor Initiative for Central Asia

The World Bank Group stands ready to support the countries of Central Asia and the international community in their joint efforts to improve the prospects of the 55 million inhabitants of the region and in assuring a better integration of the countries of the region with each other and with their neighbors, including Afghanistan.

We believe the four principles on which donors and countries agreed during the recent London Conference on the Seven Low-Income CIS countries (including Kyrgyz Republic, Tajikistan and Uzbekistan) are also relevant for any regional initiative in support of Central Asia:

- The CIS 7 are to reinforce their own policy reform and capacity building efforts.
- The CIS 7 are to cooperate with each other in their respective region

  The international community will provide enhanced support in response to strong country performance, through enhanced trade access, concessional finance, and debt relief.

  IFIs will continue to provide strong and more closely harmonized support to the countries and the international community.

A number of further considerations should be born in mind as the international community considers options for developing new initiatives of support for Central Asia:

Stay realistic and plan for the long haul: the constraints are serious, especially in the absence of a strong political umbrella for regional cooperation, such as is provided by the Stability Pact for South East Europe, which in turn is anchored in the EU accession perspective for the countries of that region,

- **Build on country demand in developing pragmatic solutions, but stress performance and keep pushing at the highest level for fundamental change:** currently the appetite for strong reforms and regional cooperation are at best mixed, and in some cases totally absent. This requires "opportunistic" responses (including confidence building steps, bi- and tri-lateral initiatives, etc.), most likely resulting in incremental change for now. However, any financial support should be linked to performance, i.e., steps that represent real change and lasting improvements in economic and social conditions, especially of the poor. Moreover, opportunities for more fundamental changes and solutions should continuously be explored, especially in dialogue at the highest political levels.
- **Work in partnership and do not duplicate:** The PRSP process provides the best available instrument for donor cooperation/coordination in the IDA countries of Central Asia (Kyrgyz Republic, Tajikistan, Uzbekistan). In other countries, the principles of the Comprehensive Development Framework (CDF) also apply, but need to be developed more on an ad hoc basis.

  Address the external constraints affecting the prospects of the poorest countries – their need for more concessional (grant) finance and debt relief. The appropriate fora for this are the Consultative Group meetings of donors for individual countries and the Paris Club meetings.

TABLE 1

CENTRAL ASIA SIZE AND ECONOMY

	Size	Pop.	GDP -2000	GDP Growth	GDP/

	(SqKm Millions)	(#M)	Current ($B)	% of Real GDP	2000	2001 (est.)	Capita 2000 (atlas method)
Kazakhstan	2.7	14.9	18.3	66	9.6	10.0	1190
Uzbekistan	0.5	24.7	13.5 *	96	4.0	3.8	610
Turkmenistan	0.5	4.8	4.4 **	76	17.6	16.0	840
Kyrgyz Rep.	0.2	4.9	1.3	66	5.0	5.3	270
Tajikistan	0.1	6.3	1.0	38	8.3	5.0	170
C.A. Total	4.0	55.6	38.5				
Comparators							
Russia	17.1	145.5	251.1	66	8.3	5.0	1660
Poland	0.3	38.7	158.8	147	4.0	2.0	4200

* at the official exchange rate. At an indicative rate, weighing the curb and official rate, the GDP would be about $8 billion

** at the official exchange rate, which is four times the curb rate. An indicative rate has not been calculated.

Source: World Bank statistical data base

TABLE 2

INDICATORS OF CENTRAL ASIA MACRO STABILITY - 2000

	Fiscal Balance (% GDP)	Current Account Balance (% GDP)	Inflation (%)	Debt to GDP (%)
Kazakhstan	-1.0	5.9	13	34
Uzbekistan	-2.2	2.4 **	28	59**
Turkmenistan	1.2	9.4 **	8	52**
Kyrgyz Rep. a/	-10.2	-5.9	19	131
Tajikistan	-0.6	-6.2	33	93
Comparators				
Russia	2.9	16.7	21	65
Poland	-2.2	-6.3	10	na

** at offical exchange rate

a/ note that in 2001, Kyrgyz fiscal deficit fell to 4.9% of GDP and inflation to 5%

Source: World Bank statistical data base

Note: Ratings of 2.0 or below are highlighted

Source: EBRD's Transition Report, 2001

TABLE 3

THE LEVEL OF REFORM IN CENTRAL ASIA – 2000

(rated on a scale of 1 to 4.3, with 4.3 being the highest level of reform)

	Prices	FX and Trade	Privatization		Enterprise Reform	Banking Sector Reform
			Small	Large		
Kazakhstan	3.0	3.3	4.0	3.0	2.0	2.3
Uzbekistan	2.0	1.0	3.0	2.7	1.7	1.7
Turkmenistan	2.0	1.0	2.0	1.7	1.0	1.0
Kyrgyz Rep.	3.0	4.0	4.0	3.0	2.0	2.3
Tajikistan	3. 0	3.3	3.3	2.3	1.7	1.0
Comparators						
Russia	3.0	2.3	4.0	3.3	2.0	1.7
Poland	3.3	4.3	4.3	3.3	3.0	3.3

Note: Ratings of 2.0 or below are highlighted

Source: EBRD's Transition Report, 2001

TABLE 4.

CENTRAL ASIA POVERTY AND INEQUALITY

	Degree of Poverty		Degree of Inequality (Gini coefficient of income per capita)		
	% below the Pov. Line	% below National $2.15 per capita /day	1987-89	1993-94	1996-98
Kazakhstan	35	6	0.30	0.33	0.35
Uzbekistan	31	22	--	--	*
Turkmenistan	29	7	0.28	0.36	0.45
Kyrgyz Rep.	55	49	0.31	0.55	0.47
Tajikistan	83	68	0.28	--	0.47
Comparators					
Russia	33	18	0.26	0.48	0.47
Poland	--	1	0.28	0.28	0.33

* a pilot household survey in one oblast showed a gini coefficient of consumption of about 0.4.

Source: World Bank Reports: "Transition: the first ten years", "Poverty and Inequality in ECA", and Bank staff estimates

TABLE 5

KEY SOCIAL SECTOR INDICATORS

	Life Expectancy (years at birth)		Infant Mortality (# per 1,000)		Birth Rate (# per 1,000)		Adult Literacy (%)
	1990	1999	1990	1999	1990	1999	1999
Kazakhstan	68	65	26	22	22	14	97.5
Uzbekistan	69	70	35	22	34	23	97.2
Turkmenistan	66	66	45	33	34	21	97.7
Kyrgyz Rep.	68	67	30	26	29	21	97.0
Tajikistan	69	69	41	20	39	22	96.7
Comparators							
Russia	69	66	17	16	13	9	Virtually all
Poland	71		19	9	14	10	

Source: World Bank data base. Note that the accuracy of social indicators in some of the Central Asian

TABLE 6

GENERAL GOVERNMENT SOCIAL EXPENDITURES

(US$ per capita)

	Education		Health		Pensions		Other Social Expenditures	
	1995	1999	1995	1999	1995	1999	1995	1999
Kazakhstan	--	40	--	29	--	87 *	--	10
Uzbekistan	33	27	16	10	23	36	15	10
Kyrgyz Rep.	21	12	12	6	24	14	3	5

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Source: BEEPS data base, 1999 and Freedom House data base for 2000-01

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